

TOWNSHIP OF CHESTER
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

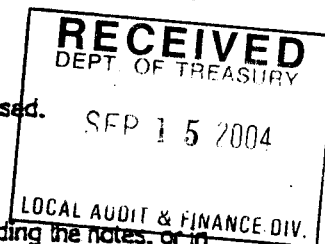
Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Chester Township		County Otsego
Audit Date March 31, 2004	Opinion Date August 6, 2004	Date Accountant Report Submitted to State: September 10, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Keskine, Cook, Miller, Smith & Alexander LLP			
Street Address 100 West First Street	City Gaylord	State MI	ZIP 49735
Accountant Signature <i>Walt & KK</i>			

TOWNSHIP OFFICIALS

SUPERVISOR

LOU ANN OLSEN

CLERK

MELISSA SZYMANSKI

TREASURER

PHYLLIS ROLINSKI

ASSESSOR

SALLY ANN NOWAK

TRUSTEES

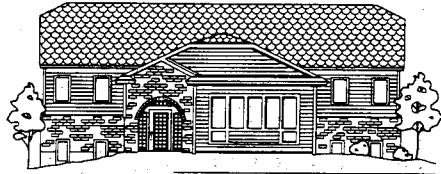
JEAN NOWICKI

WANDA BASINSKI

CHESTER TOWNSHIP

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Keskin, Cook, Miller, Smith & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 6, 2004

To the Township Board
Chester Township
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major fund activities of the Township of Chester, as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund activity of the Township of Chester as of March 31, 2004, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of March 31, 2004.

The management's discussion and analysis on pages 3-5 and budgetary comparison information on pages 24-26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

K. K. Cook Miller Smith ; Alex. D. UP
KESKINE, COOK, MILLER, SMITH & ALEXANDER, LLP

Supervisor

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Chester Township



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Treasurer

Phyllis Rolinski
1556 Shallow Shores Dr.
Gaylord, Mi. 49735
(989) 732-4355

Assessor

Sally Ann Nowak
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(989) 786-5518

Trustees: Jean Nowicki (989) 732-0303 - Wanda Basinski (989) 732-3097

MANAGEMENT'S DISCUSSION & ANALYSIS

Dear Chester Township Residents,

This section of Chester Township's annual financial report presents our discussion and analysis of our financial performance during the fiscal year ended March 31, 2004. Please read it in conjunction with the financial statements which immediately follow this section.

FINANCIAL HIGHLIGHTS

Assets at March 31, 2004 totaled \$720,858 and liabilities totaled \$553. Charges for services totaled \$4,642 which represents program revenues. The total general revenues were \$223,852 which represents property tax dollars and State shared revenue collected.

Overall expenditures totaled \$142,241 for the Township as a whole.

The Township experienced an increase in net assets of \$86,253.

The taxable value of the Township for the 2003 tax year was \$84,194,144.

The Township has no outstanding debt. The township did not purchase any capital assets in the past fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial

statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities of the Township are reported as governmental activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources. The fund financial statements are prepared using the modified accrual basis of accounting, reporting only current transactions.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets: The Township's net assets- increased during the year ended March 31, 2004 to total \$720,305 of which \$176,019 is invested in capital assets.

This condition can be traced to the items noted in the "Financial Highlights" section of this letter.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The Township has the following major fund:

General Fund- The General Fund is used to account for all activities not required to be accounted for in a separate fund. Revenues are derived primarily from property taxes and State shared revenue, general fund revenues were \$228,494. General Fund expenditures totaled \$142,241. The major general fund expenditures are road repair, fire protection, waste station costs, elections, and administration.

The Township also maintains a fiduciary fund for tax collection and disbursement activities. The Township acts as a fiduciary for assets that belong to others. These activities do not appear in the government-wide financial statements since the assets do not belong to the entity.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township made no significant capital asset purchases over the past year, nor does the Township have any long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township continues to monitor various road construction/repair projects. At present improvements are being made to Meadow Road and Cargas Road in Chester Township.

CONTRACTING ENTITY MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact Supervisor Lou Ann Olsen.

Lou Ann Olsen, Chester Township Supervisor
Lou Ann Olsen, Chester Township Supervisor

**TOWNSHIP OF CHESTER
STATEMENT OF NET ASSETS
MARCH 31, 2004**

	GOVERNMENTAL ACTIVITIES
<hr/>	
ASSETS	
Current Assets:	
Cash	\$ 228,226
Investments	309,134
Taxes Receivable	7,472
Due from Other Funds	7
	<hr/>
Total Current Assets	544,839
	<hr/>
Non-Current Assets:	
Buildings	190,785
Land	10,400
Equipment	11,674
Less Accumulated Depreciation	(36,840)
	<hr/>
Total Non-Current Assets	176,019
	<hr/>
Total Assets	720,858
	<hr/>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	-
Payroll Withholdings	553
	<hr/>
Total Liabilities	553
	<hr/>
 NET ASSETS	
Investment in Capital Assets	176,019
Restricted Net Assets	
Fire Protection	13,158
State Right of Way	955
Unrestricted Net Assets	532,083
	<hr/>
Total Net Assets	\$ 720,305
	<hr/> <hr/>

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2004**

	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	TOTAL
GOVERNMENTAL ACTIVITIES					
Administration	\$ (80,130)	\$ -	\$ -	\$ -	\$ (80,130)
Elections	(1,449)	-	-	-	(1,449)
Tax Collection & Assessment	(19,514)	4,642	-	-	(14,872)
Township Property	(15,716)	-	-	-	(15,716)
Fire Protection	(19,982)	-	-	-	(19,982)
Roads	-	-	-	-	-
Waste Station	(5,450)	-	-	-	(5,450)
Total Governmental Activities	(142,241)	4,642	-	-	(137,599)
GENERAL REVENUES					
Property Taxes					77,223
Assessments					10,390
Tax Administration Fees					26,444
State Shared Revenues					100,093
Investment Income					8,917
Rents & Royalties					261
Miscellaneous					524
Total General Revenues					223,852
Change in Net Assets					86,253
Net Assets - April 1					634,052
Net Assets - March 31					\$ 720,305

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2004**

	<u>GENERAL</u>
ASSETS	
Cash	\$ 228,226
Investments	309,134
Taxes Receivable	7,472
Due from other funds	7
	<hr/>
Total Assets	544,839
	<hr/> <hr/>
LIABILITIES AND FUND EQUITY	
Liabilities	
Accounts payable	-
Payroll Liabilities	553
	<hr/>
Total Liabilities	553
	<hr/>
Fund Equity	
Fund Balances	
Designated	14,113
Undesignated	530,173
	<hr/>
Total Fund Equity	544,286
	<hr/>
Total Liabilities and Fund Equity	\$ 544,839
	<hr/> <hr/>

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2004**

TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 8)	\$ 544,286
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Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not recorded in the funds. This represents the amounts by which capital assets used in governmental funds exceeds accumulated depreciation.

176,019

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF NET ASSETS - PAGE 6)
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\$ 720,305

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2004**

	GENERAL
REVENUES	
Property Taxes	\$ 77,223
Special Assessment - Fire	10,390
Tax Administration Fees	26,444
Charges for Services	4,642
State Shared Revenues	100,093
Rents & Royalties	261
Investment Income	8,917
Miscellaneous	524
	<hr/>
Total Revenues	228,494
	<hr/>
EXPENDITURES	
Township Administration	110,872
Fire Protection	19,982
Waste Station	5,450
Roads	-
	<hr/>
Total Expenditures	136,304
	<hr/>
Excess (Deficiency) of Revenues over Expenditures	92,190
	<hr/>
Fund Balance - April 1	452,096
	<hr/>
Fund Balance - March 31	\$ 544,286
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See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2004**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	92,190
- PAGE 10		

Amounts reported for governmental activities in the Statement of Activities
(page 7) are different because:

Governmental funds report capital outlays as expenditures. However
in the statement of activities, the cost of those assets are capitalized
and depreciation charged to expense over their useful life.

Depreciation - current year	(5,937)
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF ACTIVITIES - PAGE 7)	\$	<u>86,253</u>
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See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2004**

ASSETS

Cash	\$ 7
	<hr/>

LIABILITIES

Due to other funds	7
	<hr/>

NET ASSETS

Net assets held in trust for other governments	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED MARCH 31, 2004**

ADDITIONS

Property taxes & other collections - Chester Township	\$	107,312
Property Taxes, interest & penalty collections - other governments		2,459,362
Other Collections		23,887

Total Additions		2,590,561
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DEDUCTIONS

Property taxes, interest & other collections paid to Chester Township		107,312
Property taxes & other collections paid to schools		1,411,015
Property taxes & other collections paid to other governments		1,048,347
Other Payments		23,887

Total Deductions		2,590,561
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Change in Net Assets		-
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Net Assets - April 1		-
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Net Assets - March 31	\$	-
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See accompanying notes to financial statements

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE A: ENTITY

The Township of Chester is a general law township of the State of Michigan, located in Otsego County, Michigan. It operates under an elected board and provides services to its residents in many areas including public safety, community enrichment, and human services. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Chester Township.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of Chester Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Chester Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2003, the Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED))**

Government-Wide Financial Statements (Continued)

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The Township of Chester has only one governmental fund, general. Therefore, no non-major funds are reported. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental fund:

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

FUND TYPES AND MAJOR FUNDS (CONTINUED)

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

Other Funds

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, fees, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2003, are recorded as revenue in the current year. The Township's taxable value for the 2003 tax year totaled \$84,194,144.

The tax rates for the year ended March 31, 2004, were as follows:

PURPOSE	RATE/ASSESSED VALUATION
General	0.900 mills per \$1,000

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

BUDGET

Each year the unit formulates and adopts a budget as follows:

1. In January or February a preliminary budget is prepared for all funds.
2. Review and annual budget hearing are held in March.
3. Budget is adopted at the Township Board meeting in March or April each year.

The budget as prepared conformed to P.A. 621 of 1978.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items.

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Office furniture and equipment	10 years
Buildings and improvements	40 years

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Land is not depreciated.

For information describing capital assets, see Note E.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

At this time, the Township has no outstanding long-term debt.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE C: CASH AND INVESTMENTS

Cash and equivalents consists of all cash on hand, checking and savings accounts, and certificates of deposit with an initial maturity of three months or less.

All cash deposits are maintained in financial institutions in the Gaylord, Michigan area. The Township's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE C: CASH AND INVESTMENTS (CONTINUED)

Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.

Category 2 – Collateralized with securities held by the pledging financial Institution's trust department or agent in the Township's name.

Category 3 – Uncollateralized.

	BANK BALANCE	1	CATEGORY 2	3	CARRYING AMOUNT
Checking & Savings	\$ 233,812	\$ 167,027	\$ -	\$ 66,785	\$ 228,226
Trust & Agency	\$ 161	\$ 161	\$ -	\$ -	\$ 7

INVESTMENT TYPE	(1)	(2)	(3)	CARRYING AMOUNT
Certificates of Deposit	\$ 304,333	\$ 4,801	\$ -	\$ 309,134

(1) Insured and registered, or securities held by the Township or the Township's Agent in the Township's name.

(2) Uninsured and unregistered, with securities held by the counter party's trust department or its agent in the Township's name.

(3) Uninsured and unregistered, with securities held by the counter party's trust department or agent but not the Township's name.

The Township's investments are in accordance with statutory authority.

NOTE D: ACCOUNTS RECEIVABLE

PROPERTY TAXES

Property taxes due from tax payers are categorized as follows:

Current \$ 7,472

No allowance on accounts receivable is considered necessary at March 31, 2004.

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE E: CAPITAL ASSETS

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>	<u>CAPITAL ASSETS DEPRECIATED</u>	
	<u>Land</u>	<u>Buildings & Components</u>	<u>Furniture & Equipment</u>
			<u>Totals</u>
Governmental Activities			
Balance, April 1, 2003	\$ 10,400	\$ 190,785	\$ 11,674
Increases	-	-	-
Decreases	-	-	-
Balance, March 31, 2004	<u>10,400</u>	<u>190,785</u>	<u>11,674</u>
Accumulated Depreciation			
Balance, April 1, 2003	-	26,233	4,670
Increases	-	4,770	1,167
Decreases	-	-	-
Balance, March 31, 2004	<u>-</u>	<u>31,003</u>	<u>5,837</u>
Governmental Activities			
Capital Assets, Net	<u>\$ 10,400</u>	<u>\$ 159,782</u>	<u>\$ 5,837</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental Activities

Administration	\$ 668
Elections	499
Township Property	<u>4,770</u>
Total	<u>\$ 5,937</u>

NOTE F: FUND BALANCE/NET ASSETS

CALCULATION OF BEGINNING NET ASSETS

The Township adopted GASB Statement No. 34 effective April 1, 2003. The following represents the reconciliation of the Townships fund balance as of April 1, 2003, to its beginning net assets balance, as presented in the Statement of Activities, for the year ended March 31, 2004:

Total Fund Balance, April 1, 2003	\$ 452,096
Record capital assets	212,859
Record accumulated depreciation	<u>(30,903)</u>
Beginning Net Assets, April 1, 2003	<u>\$ 634,052</u>

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE F: FUND BALANCE/NET ASSETS (CONTINUED)

FUND BALANCE DESIGNATIONS/RESTRICTIONS

Funds collected by assessment for Fire Protection Services to certain areas of the township have not been spent at March 31, 2004. \$ 13,158

State of Michigan Metro Act funds were received and must be spent on roads/right of way in the Township. These funds were unspent at March 31, 2004; 955

Total Designations/Restrictions \$ 14,113

NOTE G: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consist of:

Monies collected in the property tax collection fund and not disbursed to the General fund at March 31, 2004. \$ 7

NOTE H: PENSION PLAN

The Township of Chester contributes to a pension plan which is a defined contribution pension plan administered by the Manufacturers Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

All full-time employees and elected officials over the age of 18 are eligible to participate in the plan. Contributions made by the Township and employees are fully vested immediately. The participant will receive all vested benefits upon termination of employment with the Township. Normal retirement age is 65 or completion of 10 years of service, whichever is later. Early retirement is permitted at age 55.

**TOWNSHIP OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE H: PENSION PLAN (CONTINUED)

The plan requires the Township to contribute 12% of the eligible employees current compensation. The Township has met all pension obligations for the year ended March 31, 2004. The Township's contribution for the year totaled \$6,489.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE I: CONTINGENCIES

INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Municipal Liability and Property Pool, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

NOTE J: COMMITMENTS

The Township has accepted bids from the Otsego County Road Commission for work on Meadow Road. Expected costs to be paid – 2005 \$ 160,831
2006 \$ 20,775

TOWNSHIP OF CHESTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Property Taxes	\$ 75,000	\$ 75,000	\$ 77,223	\$ 2,223
Special Assessment - Fire	10,370	10,370	10,390	20
Tax Administration Fees	27,000	27,000	26,444	(556)
State Shared Revenue	89,722	89,722	100,093	10,371
License & Permits	-	-	4,642	4,642
Interest & Dividends	13,000	13,000	8,917	(4,083)
Rents & Royalties	175	175	261	86
Miscellaneous	-	-	524	524
Total Revenues	215,267	215,267	228,494	13,227
EXPENDITURES				
General Government				
Township Board:				
Wages & Per Diem	10,460	10,460	7,885	2,575
Office Equipment	1,800	1,800	1,173	627
Professional Services	5,000	5,000	5,590	(590)
Insurance and Bonds	-	-	-	-
Printing and Publishing	1,200	1,200	580	620
Membership Dues	2,000	2,000	1,875	125
Education	-	-	3,362	(3,362)
Office Supplies	1,500	1,500	2,715	(1,215)
Travel	1,000	1,000	550	450
Miscellaneous	18,000	18,000	656	17,344
Pension and Fringes	8,300	8,300	7,345	955
Total Township Board	49,260	49,260	31,731	17,529
Township Supervisor:				
Salaries	11,104	11,604	11,508	96
Travel	450	450	233	217
Office Supplies and Other	400	400	38	362
Total Township Supervisor	11,954	12,454	11,779	675

TOWNSHIP OF CHESTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Assessor:				
Salaries	18,490	18,490	18,492	(2)
Office Supplies	300	300	-	300
Total Township Assessor	18,790	18,790	18,492	298
Election Board:				
Salaries	600	600	611	(11)
Travel	100	100	-	100
Office Supplies and Other	450	450	339	111
Total Election Board	1,150	1,150	950	200
Township Clerk:				
Salaries	16,112	16,112	15,181	931
Travel	500	500	358	142
Office Supplies and Other	850	850	677	173
Office Equipment	200	200	-	200
Total Township Clerk	17,662	17,662	16,216	1,446
Township Treasurer:				
Salaries	17,512	17,512	18,136	(624)
Office Supplies and Equipmen	800	800	106	694
Postage	2,000	2,000	1,012	988
Travel	600	600	482	118
Education	800	800	-	800
	21,712	21,712	19,736	1,976
Board of Review:				
Salaries	1,650	1,650	1,010	640
Office Supplies & Misc.	50	50	-	50
Transportation	100	100	12	88
Fringe Benefits	-	-	-	-
	1,800	1,800	1,022	778

TOWNSHIP OF CHESTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Hall:				
Supplies	2,600	2,600	2,330	270
Contract Services	1,800	1,800	1,592	208
Telephone	2,000	2,000	1,253	747
Insurance & bonds	4,000	4,000	3,192	808
Utilities	1,300	1,300	932	368
Repairs & Maintenance	2,500	2,500	1,647	853
Capital Improvements	-	-	-	-
Total Township Hall	14,200	14,200	10,946	3,254
Total General Government	136,528	137,028	110,872	26,156
Fire Contract Services	30,000	30,000	19,982	10,018
Roads Contract Services	50,000	50,000	-	50,000
Waste Station Contract Serv	7,000	7,000	5,450	1,550
Total Expenditures	223,528	224,028	136,304	87,724
Excess (Deficiency) of Revenues over Expenditures	(8,261)	(8,761)	92,190	100,951
Fund Balance - April 1	452,096	452,096	452,096	-
Fund Balance - March 31	<u>\$ 443,835</u>	<u>\$ 443,335</u>	<u>\$ 544,286</u>	<u>\$ 100,951</u>